



Wyoming Lender Alert

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Making a Difference for Small Business in Wyoming

Fraudulent Schemes Detected on SBAExpress Loans

Fraudulent schemes have been detected by the Office of Inspector General (OIG) on a number of SBAExpress loans. This alert is to make you aware of some of the patterns and indicators seen in investigations in the hope of curtailing fraud associated with this program. While there is no evidence that these fraud cases constitute a large percentage of SBAExpress Loans, we are asking all lenders to maintain a high level of diligence to identify and prevent this type of fraudulent activity. Lenders that identify fraudulent activity should refer the matter to the OIG for investigation.

The Western Regional Office of the OIG Investigations Division is currently conducting various investigations involving the SBAExpress Loan Program. In one case, in response to a referral from a bank, the office is investigating a scheme being perpetrated by a loan packager involving 57 loans of smaller dollar value (generally under \$50,000) where the business applicants either did not exist or presented false business histories. Fortunately, the bank caught on to the fraud and not all of these loans were made. Similar plots have been identified that are being perpetrated against other lenders. SBA is working with banks to investigate these schemes and will seek criminal prosecution, where appropriate.

Some of the patterns and indicators seen in these schemes include:

- 1) The fraud schemes are perpetrated by a loan packager or broker and borrowers who the packager/broker has recruited through newspaper ads or in person at local organizations.
- 2) A number of these loans involved a packager/broker who recruits borrowers of the same ethnic group, who are often recent immigrants.
- 3) Multiple loan applications that reflect the same handwriting and business address.
- 4) False statements made as to the length of time a business has been in existence, the number of employees, sales figures, business address, and other information. In many cases, the businesses do not even exist.
- 5) Loan applications submitted to different lenders for the same business. The borrower does not disclose that he/she has applied for loans elsewhere.
- 6) Borrowers using either false social security numbers or obtaining multiple loans through the same social security number.

To deter and prevent this fraud, if lenders are not already doing so, the OIG recommends that lenders take some or all of the following actions:

- 1) Monitor and track involvement of loan brokers and packagers in the loan application process. SBA Form 1919, SBAExpress and Community Express Information Form, requires SBAExpress applicants to disclose whether or not anyone assisted them in the preparation of their loan. It may also be helpful to ask the borrowers whether any loan agent or broker assisted with the loan application.
- 2) Take other steps to verify the existence, location and ownership of business borrowers through Dun and Bradstreet checks or other means, such as reviewing Secretary of State listings or conducting site visits. Our investigations have shown, for example, that fictitious businesses have never made required tax filings with the state department of revenue or boards of equalization, or filed other tax returns. Lenders are reminded of the IRS tax verification

requirements found in the SBAExpress Program Guide.

- 3) Develop methods of ensuring that multiple loans are not being made to the same borrowers or businesses or to businesses located at the same address. In several cases, the same social security number has been used to obtain loans from the same lender to different borrowers.
- 4) Undertake greater efforts to make a positive identification of the borrower. In one case, the bank accepted a photocopy of the borrower's driver license, which had been altered. SBA Information Notice 5000-887, Lender Compliance with Treasury Requirements for Customer Identification Programs summarized lender obligations under Department of Treasury requirements for customer identification. Additionally, lenders should note that Section I of the Checklist, entitled Eligibility Information Required for SBAExpress submission, requires lender certification that the INS status of the applicant has been verified.
- 5) Question the borrower about any recent inquiries reflected on credit reports, because this may indicate that the borrower is attempting to obtain multiple loans. Also, question the borrower about the lack of a credit history as this may indicate that the borrower is using a fictitious name, business or social security number.

If there are questions, or to report suspicious or potentially criminal conduct, contact the local OIG Investigative Office (see <http://www.sba.gov/ig/hotline.html>).

Laramie Herbalists Dig New Loan Program

By Tom Lacock, Marketing & Publicity
Wyoming Business Council

Digging a little deeper for non-traditional cures for common ills is the philosophy

behind Elk Mountain Herbs. The Laramie firm was formed in 1992 by Karin Guernsey and Caroline Johnson to sell herbal products and educational services.

After the addition of Kim Vincent in 1995 and the opening of The Herb House, a retail outlet for medicinal tinctures made from Wyoming plants, in the fall of 1996, space became an issue. The businesses had previously called an 800 square foot house just south of the Laramie business district home and the lack of square footage seemed to be the only thing limiting the growth.

During the search for new digs, the group learned of a loan participation program through the Wyoming Business Council called the Guarantee Loan Participation Program. Using this program, the Wyoming Business Council can participate in a loan, by partnering with a local bank, which has received a federal guarantee on the loan, for up to half of the amount of the loan. In doing so, the Business Council will fix the loan rate at 5 percent for the first five years. After that period it goes to the face rate of the bank note.

In other words, if a bank is lending out money at the prime interest rate of 8 percent and the Business Council participates on 50 percent of the loan at 5 percent, the Business Council's involvement saves the loan recipient 3 percent in interest each year over the next five years. On a \$100,000 loan, that could mean a savings of \$1,500 each year for the first five years or \$7,500 total.

In the case of Triphyto, a land holding company who's shareholders are Vincent, Guernsey and Johnson, bought the building for Elk Mountain Herbs and The Herb House, and reduced their interest rate by over one point. Security First Bank was the lead lender with loan officer Denise Newell pointing out Triphyto would be a likely candidate for this program.

"It was a fairly painless process for us once we completed the original loan application paperwork. Denise really went to work for us," said Guernsey. "We appreciate that the Wyoming Business Council selected our business for the new program.

We have experienced an increase in retail sales, with lot of new customers coming from the walk-by crowd; it's due mainly to our new retail location. We're excited to see the future impact of the additional space on the production side of our business."

The Business Council's ability to participate in such loans came out of the 2005 Legislative session when a law was passed letting the state participate on loans that were guaranteed by the Small Business Administration or the United States

Agriculture Department's Rural Development program.

In order to qualify for this particular loan, the applicant has to show they are expanding their businesses or adding jobs and the first step towards securing loan participation through the Wyoming Business Council is to contact your local bank.

Businesses attempting to qualify for a loan with state participation need to bring their loan proposal, business plan and statements to their local bank to determine eligibility.

For more information on this program, call Ben Avery at 777-2863 at the Wyoming Business Council or Steve Parker at 261-6506, Small Business Administration.

Internal Revenue Service (IRS) Forms

The IRS has issued a Revision of IRS Form 4506-T. The new IRS Form 4506-T (April 2006) with the SBA Logo on the form is now available on SBA's Intranet site (<http://yes.sba.gov/forms/>) and the SBA Banking site (<http://www.sba.gov/banking/>). The new form is to be used instead of previous IRS Form 4506-T (November 2005).

This Notice applies to the 7(a) and 504 Loan Programs. Question or concerns may be directed to Bob Auflick, 261-6507, Small Business Administration.

Frequently Asked Questions

What is a small business? The Office of Advocacy defines a small business for research purposes as an independent business having fewer than 500 employees. Firms wishing to be designated small businesses for government programs such as contracting must meet size standards specified by the U.S. Small Business Administration (SBA) Office of Size Standards. These standards vary by industry.

How important are small businesses to the U.S. economy? Small firms:

- Represent 99.7 percent of all employer firms.
- Employ half of all private sector employees.
- Pay more than 45 percent of total U.S. private payroll.
- Have generated 60 to 80 percent of net new jobs annually over the last decade.
- Create more than 50 percent of non-farm private gross domestic product (GDP).
- Supplied more than 23 percent of the total value of federal prime contracts in FY 2005.

• Produce 13 to 14 times more patents per employee than large patenting firms. These patents are twice as likely as large firm patents to be among the one percent most cited.

• Are employers of 41 percent of high tech workers (such as scientists, engineers, and computer workers).

• Are 53 percent home-based and 3 percent franchises.

• Made up 97 percent of all identified exporters and produced 28.6 percent of the known export value in FY 2004.

How many small businesses are there? In 2005, there were approximately 25.8 million businesses in the United States, according to Office of Advocacy estimates. Census data show that there were 5.8 million firms with employees and 18.6 million without employees in 2003, the most recent year with data. Applying the sole proprietorship growth rates to the non-employer figures and similar Department of Labor growth rates to the employer figures produces the 25.8 million figure. Small firms with fewer than 500 employees represent 99.9 percent of the 25.8 million businesses (including both employers and non-employers), as the most recent data show there are nearly 17,000 large businesses.

How do regulations affect small firms? Very small firms with fewer than 20 employees spend 45 percent more per employee than larger firms to comply with federal regulations. These very small firms spend 4½ times as much per employee to comply with environmental regulations and 67 percent more per employee on tax compliance than their larger counterparts.

Cost of Federal Regulations by Firm Size, All Business Sectors (Dollars)
How many businesses open and close each year? Estimates for businesses with employees indicate there were 671,800 new firms and 544,800 closures (both about 10 percent of the total) in 2005. Starts and Closures of Employer Firms, 2001-2005. How many new jobs do small firms create? Over the past decade, small business net job creation fluctuated between 60 and 80 percent. In the most recent year with data (2003), employer firms with fewer than 500 employees created 1,990,326 net new jobs, whereas large firms with 500 or more employees shed 994,667 net jobs.

What is small firms' share of employment? The small business share

of employment remains around 50 percent. Although small firms generally create 60 to 80 percent of the net new jobs, some firms will become large firms as the new jobs are created. Of 113.4 million non-farm private sector **Category**

	2001	2002	2003	2004	2005
New Firms	585,140	569,750	612,296	642,600	671,800
Firm Closures	553,291	586,890	540,658	544,300	544,800
Bankruptcies	40,099	38,540	35,037	34,317	39,201

Office of Advocacy Type of Cost per Employee for Firms with: Regulation <20 Employees 500+ Employees. All Federal Regulation \$7,647 \$5,282; Environmental 3,296 710; Economic 2,127 2,952; Workplace 920 841; Tax Compliance 1,304 780 workers in 2003, small firms with fewer than 500 workers employed 57.4 million and large firms, 56.0 million. Smaller firms with fewer than 100 employees employed 41.0 million.

What is the survival rate for new firms? Two-thirds of new employer establishments survive at least two years, and 44 percent survive at least four years, according to a recent study. These results were similar for different industries. Firms that began in the second quarter of 1998 were tracked for the next 16 quarters to determine their survival rate. Despite conventional wisdom that restaurants fail much more frequently than firms in other industries, leisure and hospitality establishments, which include restaurants, survived at rates only slightly below the average.

Earlier research has explored the reasons for a new business's survivability. Major factors in a firm's remaining open include an ample supply of capital, being large enough to have employees, the owner's education level, and the owner's reason for starting the firm in the first place, such as freedom for family life or wanting to be one's own boss.

How are small businesses financed? Commercial banks are the largest suppliers of debt capital to small firms, supplying more than 80 percent of lending in the credit line market and, with the exception in leasing, more than 50 percent in other markets, such as commercial mortgages and vehicle, equipment, and other loans. In June 2004, small business loans outstanding owed to commercial banks amounted to \$522 billion. Very large banks with assets of at least \$10 billion are making a

significant percentage of small loans of less than \$100,000.

Shares of the Number and Amount of Small Business Loans by Banks and BHCs by Asset Size, June 2004

Abbreviations: BHC, bank holding company; SBL, small business loan

What role do women, minority, and veteran entrepreneurs play in the economy? • Women owned 6.5 million businesses that generated \$940.8 billion in revenues, employed 7.1 million workers, and had \$173.7 billion in payroll in 2002. In addition, another 2.7 million firms are owned equally by both women and men; these firms add another \$731.4 billion in revenues and employ another 5.7 million workers.

• Of the 23 million non-farm firms in 2002, 6.8 percent were owned by Hispanic Americans, 5.2 percent by African Americans, 4.8 percent by Asian Americans, 0.9 percent by American Indians or Alaskan Natives, and 0.14 percent by Native Hawaiian or other Pacific Islanders. In 2002, minorities owned 4.1 million firms that generated \$694.1 billion in revenues and employed 4.8 million workers.

• Male veterans' self-employment rates were higher than those of non-veterans from 1979 to 2004. The rate was 13.7 percent in 2003, compared to 12.2 percent for non-veterans.

• According to a study on veteran business ownership, about 22 percent of veterans in the U.S. household population were either purchasing or starting a new business or considering purchasing or starting one in 2004, and almost 72 percent of these new veteran entrepreneurs planned to employ at least one person at the outset of their new venture.

What research is there on the cost of health insurance? According to a National Federation of Independent Business membership survey, the number one small business issue is the cost and availability of insurance. Aspects of insurance that may drive small business concern are premium increases and administrative costs. Advocacy research shows that insurers of small health plans have higher administrative expenses than those that insure larger group plans.

Whom do I contact about regulations? To submit comments on proposed regulations, send email to advocacy@sba.gov or visit Advocacy's regulatory alerts page at www.sba.gov/advo/laws/law_regalerts.html.

To follow up on regulatory enforcement issues, email ombudsman@sba.gov.

How can I get more information? For more detailed information, visit www.sba.gov/advo.

Sign up at <http://web.sba.gov/list> for email delivery of news releases, *The Small Business Advocate* newsletter, small business research findings and statistics, and regulatory communications. Office of Advocacy economic research can be found at www.sba.gov/advo/research. Specific points of interest include:

- Firm size data (static/dynamic for the U.S., states and metropolitan statistical areas): www.sba.gov/advo/research/data.html
- Small firm lending studies (1994-present):

www.sba.gov/advo/research/lending.html

- State economic profiles (1998-present):

www.sba.gov/advo/research/profiles

- *The Small Business Advocate* monthly newsletter (2000 - present): www.sba.gov/advo/newsletter.html

Direct questions to (202) 205-6533 or advocacy@sba.gov.

Bank/BHC Asset Size (\$) All Banks

<500M 500M-10B >10B & BHCs

	Number of Banks/BHCs	5,706	645	72
6,423; SBLs <\$100K; <i>Share of Amount</i>	31.1%	19.2%	49.7%	\$125.3B; <i>Share of Number</i>
	11.0%	21.5%	67.5%	13.6M
SBLs \$100K-<\$1M; <i>Share of Amount</i>	26.8%	28.2%	45.0%	\$397.0B; <i>Share of Number</i>
	27.2%	28.2%	44.6%	1.7M
SBLs <\$1M; <i>Share of Amount</i>	27.8%	26.0%	46.2%	\$522.3B; <i>Share of Number</i>
	12.8%	22.3%	65.0%	15.3M

UPCOMING EVENTS

July 5 – Women's Roundtable Casper

July 13 Women's Roundtable Worland

July 18 – Selling to the Government Seminar – Ethete

July 18 - Women's Roundtable Cody

July 20 – Women's Roundtable Powell

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